

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00

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FM AMEMBASSY LONDON

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INFO AMEMBASSY MOSCOW

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AMEMBASSY BERLIN

USMISSION BERLIN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMCONSUL LENINGRAD

AMEMBASSY LUXEMBOURG

USMISSION NATO BRUSSELS

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY PRAGUE

AMEMBASSY ROME

AMEMBASSY SOFIA

AMEMBASSY WARSAW

C O N F I D E N T I A L LONDON 02982

E.O. 11652: XGDS-1

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TAGS: ETRD, EFIN, UR, UK

SUBJECT: NEW UK CREDIT LINE FOR USSR

RE: MOSCOW 2301, LONDON 2768

1. PETER PRESTON (DEPUTY SECRETARY, DEPARTMENT OF TRADE), WHO WAS A MEMBER OF THE UK DELEGATION TO MOSCOW DURING PRIME MINISTER WILSON'S VISIT, HAS GIVEN US ADDITIONAL DETAILS OF THE ANGLO-SOVIET CREDIT AGREEMENT. HE SAID THAT WHILE THE OUTLINE OF THE AGREEMENT WAS GENERALLY KNOWN, SOME DETAILS, PARTICULARLY THE RATES TO BE CHARGED, WOULD NOT BE MADE PUBLIC. HE PROVIDED THE FOLLOWING ON A STRICTLY CONFIDENTIAL BASIS, AND IT SHOULD BE TREATED ACCORDINGLY.

2. PRESTON CONFIRMED THAT TOTAL AMOUNT OF TRADE COVERED IS 950 MILLION POUNDS OF WHICH ABOUT 80 PERCENT WILL PROBABLY BE COVERED BY ECGD. UP TO 600 MILLION POUNDS (L.44 BILLION DOLLARS) CAN BE USED FOR MAJOR PROJECTS. THESE ARE DEFINED AS PROJECTS THAT COST 35 MILLION POUNDS (84 MILLION DOLLARS) OR MORE.

3. ACCORDING TO PRESTON, THE SOVIET SIDE CLAIMED THAT THE INTEREST RATES IN THE RECENTLY CONCLUDED AGREEMENT WITH FRANCE (7.2 PERCENT FOR MAJOR PROJECTS, AND 7.55 PERCENT FOR OTHERS) INCLUDED BANK CHARGES AND EXPORT CREDIT PREMIUMS. THE SOVIETS CLAIMED THAT THESE SUPPLEMENTARY ITEMS AMOUNTED TO ABOUT ONE HALF OF ONE PERCENT AND ARGUED THAT THE UK'S RATES SHOULD BE REDUCED ACCORDINGLY. THE UK FINALLY AGREED TO SHAVE 0.2 PERCENT OFF ITS ORIGINAL PROPOSALS AND THE AGREEMENT PROVIDES FOR 7.0 PERCENT FOR MAJOR PROJECTS, AND 7.35 PERCENT FOR OTHERS. THESE RATES ARE EXCLUSIVE OF SUPPLEMENTARY CHARGES. PRESTON SAID THEY LEAVE THE UK AT A COMPETITIVE DISADVANTAGE IN COMPARISON WITH FRANCE. THE 7.0 PERCENT RATE FOR MAJOR PROJECTS WILL BE AVAILABLE FOR CONTRACTS SIGNED BEFORE AUGUST 16, 1977 AND THE 7.35 PERCENT RATE FOR CONTRACTS SIGNED BEFORE AUGUST 16, 1976. AFTER THESE DATES, THE INTEREST RATES WILL BE RENEGOTIATED IN THE LIGHT OF PREVAILING CONDITIONS.

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4. PRESTON SAID THAT THE REPAYMENT PERIOD IS EIGHT AND A HALF YEARS FOR PROJECTS COSTING 7 MILLION POUNDS OR MORE, EIGHT YEARS FOR PROJECTS COSTING 5-7 MILLION POUNDS, AND 7 YEARS FOR PROJECTS OF LESS THAN 5 MILLION POUNDS.

5. THE DETAILS OF THE UK'S AGREEMENT CONFORM "ALMOST PRECISELY" TO THOSE OF THE FRENCH CREDIT AGREEMENT, ACCORDING TO PRESTON. HE SPECULATED THAT THE SOVIETS

HAVE A NUMBER OF REASONS FOR STEERING BUSINESS TOWARD THE UK AT THIS TIME. THEY WANT SOME BRITISH TECHNOLOGY; THEY WOULD LIKE TO REDRESS THE TRADE BALANCE IN BRITAIN'S FAVOR AND GIVE THE UK AN INCENTIVE TO EXPAND THE OVERALL VOLUME OF TRADE; THEY WOULD LIKE TO "SHOW SENATOR JACKSON" THAT THE USSR CAN DIRECT BUSINESS AWAY FROM THE US; AND THEY WANT TO DEMONSTRATE TO THE BRITISH THAT THEY WILL HAVE SOME FRIENDS IN MOSCOW IF THEY CHOOSE TO LEAVE THE EUROPEAN COMMUNITY. THE QUESTION, PRESTON SAID, IS WHETHER BRITISH FIRMS WILL SEIZE THIS OPPORTUNITY. HE EXPECTS THAT THEY WILL, NOTING THAT SOME 400 MILLION POUNDS OF ANGLO-SOVIET BUSINESS IS CURRENTLY "UNDER NEGOTIATION."

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